

CITY OF BLACK DIAMOND
King County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Annual Reports Should Be Complete And Prepared In An Accurate Manner

The City of Black Diamond's 1993 annual financial reports to the State Auditor and the state Secretary of Transportation were incomplete and contained material errors and/or omissions.

The reports required to be filed with the State Auditor were missing certain required schedules including the basic Fund Resources and Uses Arising from Cash Transactions Schedules. The schedules that were submitted, and the Cash Transaction Schedules subsequently prepared, contained numerous material errors and/or omissions.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district . . . financial reports . . . in accordance with the forms and methods prescribed by the state auditor . . . The reports shall contain accurate statements

The street cost report was not filed with the state Department of Transportation until July 14, 1994, and was substantially inaccurate.

RCW 35.21.260 requires:

The governing authority of each city and town on or before March 31st of each year shall submit such records and reports regarding street operations in the city . . . to the secretary of transportation on forms furnished by him . . . to compile an annual report thereon.

These errors were caused primarily by turnover in personnel, inaccurate underlying accounting records, incorrect transfer of information from the accounting records to the reports, and inadequate familiarity with the various reporting requirements. Our prior audit reports have included similar findings.

When annual reports are inaccurate, users of the reports are denied useful financial information. Further, information compiled by state agencies based on the city's reports is inaccurate.

The statements and schedules contained in this report have been corrected with the assistance of the auditor.

We recommend city officials accurately prepare and file timely, all required annual reports.

2. The City Should Establish An Adequate System Of Controls Over Procurement And Processing Of Claims Vouchers

The city did not have a comprehensive system of controls that would facilitate the identification, implementation, and monitoring of compliance with state procurement and claims processing requirements. We noted the following material weaknesses in the internal control structure:

- a. The city did not have formal procurement policies or procedures in place during 1993 governing the selection of vendors or approval and payment of claims vouchers.
- b. Purchase orders were only used by the Police Department rather than on a city-wide basis.
- c. Vouchers were not clearly authorized by appropriate city personnel prior to payment.

These conditions could impair the city's ability to prevent or detect errors or irregularities in a timely manner. In addition, these conditions increase the likelihood that specific procurement may not comply with state requirements. As reported in the following two findings, we noted two instances whereby the city did not comply with state procurement requirements.

These conditions were caused by lack of familiarity with state procurement and claims processing requirements.

We recommend city officials:

- a. Develop comprehensive written policies and procedures governing procurement and claims processing activities.
- b. Use purchase orders on a city-wide basis.
- c. Ensure all claims against the city are properly authorized by appropriate personnel prior to payment.

3. The City Should Comply With Statutory Bid Law Requirements

During our audit we noted that the city made two acquisitions without calling for required competitive bids.

In December 1992, the city entered into an agreement in the amount of \$20,324 with a vendor for the purchase of a prefabricated steel building. The city paid the vendor a total of \$13,731 under this contract prior to receiving actual delivery of the building. In February 1993, the city bypassed the vendor under contract and paid the vendor's supplier \$8,113 as the balance due on the building. The city accepted delivery of the building in February 1994.

In July 1993, the city purchased a 1991 Chevrolet Camaro for \$12,889.

Both purchases were subject to state bidding requirements under RCW 35.23.352, which states in part:

(6) Any purchase of supplies, material, equipment or services other than professional services, except for public work or improvement, where the costs thereof exceeds seven thousand five hundred dollars shall be made upon call for bids

These conditions were caused by the material weaknesses noted in Finding 2.

Without calling for competitive bids, the city cannot be assured that it received the best possible price.

We recommend city officials establish policies on bid procedures to ensure that the requirements of RCW 35.23.352 are met.

4. The City Should Comply With Statutory Public Works Contract Administration Requirements

During our audit we noted that the city performed two public works projects that were not subjected to certain statutory public works contract requirements. These instances of noncompliance were as follows:

- a. In March 1993, the city entered into an agreement in the amount of \$15,628 with a contractor for the installation of a prefabricated steel building.

The city paid the contractor a total of \$12,222 under this contract through May 1993. The city did not make any additional payments to the contractor pending resolution of problems related to the installation of the building.

The city did not withhold retainage under this contract as required by RCW 60.28.010 or obtain a performance bond (or, in-lieu-of a performance bond, retain 50 percent of the contract price) as required by RCW 39.08.010.

- b. In August 1992, the city entered into an agreement in the amount of \$221,594 with a contractor for the Cranmar Creek Crossing portion of the Wastewater Treatment Works project.

This work was completed in October 1992, and the city paid the contractor \$129,680 and \$91,914, respectively, in January and February 1993.

The contract provided for and the progress payments reflected provision for payment of retainage; however, the city paid the entire amount due the contractor without withholding the retainage.

By not withholding retainage under either of these contracts, the city may be liable for any outstanding project-based contractor financial obligations.

RCW 39.08.015 states that, if the city fails to take a performance bond, the city is liable for contract related debts of the contractor. The failure to obtain a performance bond resulted in additional expense to the city to resolve problems related to the installation of the building.

These conditions were caused by the material weaknesses noted in Finding 2 as well as a lack of familiarity with certain statutory contract administration requirements.

We recommend city officials withhold retainage and obtain performance bonds in accordance with statutory requirements.

5. Internal Controls At The Municipal Court Should Be Strengthened

During our audit of the municipal court, we noted the following material weaknesses in the internal control structure:

- a. There was no segregation of duties between access to assets and control over the related accounting records. The court administrator performed the following functions:
 - (1) Recorded case disposition on court calendar and docket.
 - (2) Receipted cash and made all deposits.
 - (3) Wrote checks on the court bank account and reconciled the bank statement to the check register.
 - (4) Posted transactions to the court transaction journal.
 - (5) Reconciled the court trust bank account, court transaction journal, and bail pending to each other.
- b. The city did not maintain a sequential file of official prenumbered court receipts issued to customers; rather, the city's only copy was attached to the related citation.
- c. Deposits to the bank were not made in a timely manner. Receipts were held up to two weeks before deposit.

These conditions could impair the city's ability to prevent or detect errors or irregularities in a timely manner.

City personnel was not aware that these conditions were internal control weaknesses.

We recommend:

- a. An employee independent of court cash handling functions prepare the monthly bank reconciliation and check the balance against the bail pending and court transaction journal totals. Any differences should be resolved timely.
- b. A copy of all court receipts issued to customers be filed in a sequential manner.
- c. Deposits be made timely.

6. Payments To The Black Diamond Community Center Should Not Be Funded By The City's Water And Sewer Utilities

In March 1993, the city paid the Black Diamond Community Center (BDCC) \$1,022. This was a refund of water and sewer charges paid to the city by the BDCC during 1992 and was funded by the city's water and sewer utilities in the amounts of \$337 and \$685, respectively. The city made the payment in exchange for undefined general government services provided by the BDCC to the city.

As a result, city General Fund operations were financed by the utility ratepayers.

RCW 43.09.210 states in part:

. . . no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another . . .

City officials were unaware that such a payment should not be made from the utilities.

We recommend city officials ensure general governmental operations are not financed by the utilities. If the city wishes to make such a payment to the BDCC, it should be financed by the general government and be in exchange for a defined, reasonable consideration.

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Schedule Of Federal Findings

1. Claims For Reimbursement Of Federal Program Costs Should Be Adequately Supported And Reconciled To The Accounting System

Our review of costs claimed for reimbursement under the Environmental Protection Agency (EPA) Wastewater Treatment Works Construction Grant (CFDA 66.418) disclosed the following instances whereby costs claimed were not adequately supported and did not properly reconcile to the financial statements or the Schedule of Federal Financial Assistance:

a. Construction Costs - Cranmar Creek Crossing

In December 1992, the city received reimbursement from EPA of \$326,472 comprised of the prime contractor's October 1992 pay request. In January 1993, the city paid the contractor \$312,252. Our review did not disclose any evidence that the balance of \$14,220 was ever actually paid by the city. We determined that only \$312,252 was actually reflected on the Schedule of Federal Financial Assistance. This condition resulted in questioned costs of \$14,220.

b. Attorney Costs

In December 1992, the city received reimbursement of \$472 comprised of the city attorney's July 1992 monthly project billing. In January 1993, the city paid \$405 under this billing. Our review disclosed the balance of \$67 was comprised of a charge for a July 28, 1992, conference which was double charged to the grant. We determined that only \$405 was actually reflected on the Schedule of Federal Financial Assistance. This condition resulted in questioned costs of \$67.

c. Overpayment Received Under Reimbursement Request

In November 1993, the city received reimbursement of \$712 related to Form SF-271 "Outlay Report And Request For Reimbursement For Construction Programs" for August 1993. Our review disclosed the amount actually claimed for reimbursement was \$580, resulting in an overpayment under this grant of \$132. This condition was noted by city personnel in November 1993; however, this issue had not been resolved as of August 1994.

U.S. Office of Management and Budget (OMB) Circular A-87 *Cost Principles for State and Local Governments* states in part that all costs claimed on federal grant projects must be adequately supported by vendor invoices or other appropriate documentation.

Claims for reimbursement are supported by vendor invoices and other appropriate documentation which are not actually paid by the city until after receipt of moneys from

EPA. We determined that the audit trail between these vendor invoices and evidence of payment (e.g. voucher number) was inadequate. In addition, we noted several instances whereby different vendor numbers were used for the same vendor. Finally, we determined that the city did not reconcile moneys received to reimbursement requests in a timely manner.

These conditions resulted in total questioned costs of \$14,419. In addition, program expenditures as presented on the Schedule of Federal Financial Assistance were understated by \$14,352. The Schedule of Federal Financial Assistance contained in this report reflects appropriate corrections made by city personnel.

We recommend city officials ensure:

- a. Expenditures claimed for reimbursement under federal programs are reconciled to the city's accounting system in a timely manner, and that an adequate audit trail exists between the reimbursement request and evidence of payment.
- b. Moneys received under federal programs are reconciled to the related reimbursement requests and any differences be resolved in a timely manner.

We further recommend the city confer with the Environmental Protection Agency regarding the disposition of these questioned costs.

2. Federal Funds Received From The Grantor Agency Should Be Expended In A Timely Manner

We determined that federal funds received from the Environmental Protection Agency (EPA) under the Wastewater Treatment Works Construction Grant program (CFDA 66.418) were not expended in a timely manner.

The city receives these funds after receipt of contractor and vendor invoices, but before actual payment of the claims. Accordingly, federal funds are received in advance of actual disbursement of expenditures.

As discussed in our prior audit report, this condition was noted with respect to moneys received in September 1992, but not paid until December 1992; and moneys received in December 1992, but not paid until February 1993 or May 1993. During our current audit, we noted the following additional instances of noncompliance:

- a. On July 7, 1993, the city received reimbursement of \$18,258. We determined that \$9,294 of these costs were not actually paid until September 2, 1993.
- b. On November 30, 1993, the city received reimbursement of \$17,820. We determined that these costs were not actually paid until January 6, 1994.

Title 40, Section 31.20(b)(7), of the *Code of Federal Regulations* states in part:

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees . . . must be followed whenever advance payment procedures are used . . . the grantee must make drawdowns as close as possible to the time of making disbursements

Part III Section b(24) of the grant agreement between the city and EPA states in part:

The grantee shall make payment to its construction contractors promptly after receipt of Federal sums due under this grant

The failure to expend federal funds in a timely manner resulted in the following adverse conditions:

- a. The city did not comply with federal cash management requirements. Not complying with federal requirements places the city at risk of losing future federal funding.
- b. The city received an extended interest-free loan at the expense of the federal government. We determined that these advances did not generate any investment income for the city.
- c. Vendors were not paid in a timely manner.

These conditions were primarily caused by failure to reconcile reimbursement requests to the accounting system in a timely manner.

We recommend:

- a. City officials develop policies and procedures designed to ensure reimbursement requests are reconciled to the accounting system in a timely manner.

- b. Federal funds received from the grantor agency should be expended in a timely manner.

3. The City Should Establish Formal Procurement Policies And Procedures

As discussed in nonfederal Finding 2, the city did not have formal procurement policies or procedures in place during 1993 governing the selection of vendors or approval and payment of claims vouchers.

Title 40, Section 31.36(c)(3), of the *Code of Federal Regulations* states in part:

Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations:

(i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured . . .

(ii) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

These conditions increase the likelihood that specific procurements may not comply with federal requirements including, but not limited to, the allowability of costs claimed for reimbursement. We consider this a material weakness.

Not complying with federal requirements places the city at risk of losing future federal funding.

This condition was caused by lack of familiarity with federal procurement requirements.

We recommend city officials develop comprehensive written policies and procedures governing procurement and claims processing activities.

4. The City Should Obtain A Wastewater Plant Certification Of Compliance With Specifications And Enforceable Requirements

The city received federal funding from the Environmental Protection Agency (EPA) under the Wastewater Treatment Works Construction Grant program (CFDA 66.418) for construction work needed to meet state and federal water quality requirements. This work was completed in October 1992, and the city's wastewater treatment facility commenced operations in November 1992.

We determined that as of August 1994, the plant was not certified for compliance with the project performance standards.

Part III Section b(6) of the grant agreement between the city and EPA states in part:

After the project has been in operation for one year, the grantee will certify whether or not the project is performing in accordance with the design performance standards. If the project cannot meet these standards, the grantee must submit a corrective action report and a schedule for bringing the project into compliance.

The city was aware of this condition and has been working with the Washington State Department of Ecology in an effort to attain this certification.

We recommend city officials obtain certification that the project is capable of meeting the project performance standards.